

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Sebawaing Harbor Commission	County Huron
Fiscal Year End 3/31/07	Opinion Date 9/11/07	Date Audit Report Submitted to State 10/3/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

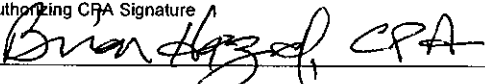
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>	None required		
Certified Public Accountant (Firm Name) Nietzke & Faupel, P.C.		Telephone Number 989-453-3122		
Street Address 7274 Hartley Street		City Pigeon	State MI	Zip 48755
Authorizing CPA Signature 		Printed Name Brian Hazard, CPA		License Number 1101014007

**SEBEWAING HARBOR COMMISSION
SEBEWAING, MICHIGAN**

**FINANCIAL REPORT
MARCH 31, 2007**

SEBEWAING HARBOR COMMISSION

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REPORT OF INDEPENDENT AUDITORS

To the Honorable Board of Commissioners
Sebewaing Harbor Commission
Sebewaing, Michigan 48759

We have audited the accompanying financial statements of the business type activities of the Sebewaing Harbor Commission, Sebewaing, Michigan as of and for the year ended March 31, 2007, which comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Sebewaing Harbor Commission, Sebewaing, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of the Sebewaing Harbor Commission, Sebewaing, Michigan as of March 31, 2007, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis as noted in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Nietzke & Faupel, PC
NIETZKE & FAUPEL, P.C.
SEBEWAING, MICHIGAN

September 11, 2007

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Circular 230 Disclosure: To the extent the above contains an opinion on one or more federal tax issues such opinion was not written to be used and cannot be used for the purpose of avoiding penalties.

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SEBEWAING HARBOR COMMISSION MANAGEMENT'S DISCUSSION AND ANALYSIS

As the management of the Sebewaing Harbor Commission, we offer readers this narrative overview and analysis of the financial statements of the Sebewaing Harbor Commission for the year ended March 31, 2007. Please read it in conjunction with the Harbor's financial statements.

FINANCIAL HIGHLIGHTS

The assets of the Sebewaing Harbor Commission exceeded its liabilities as of March 31, 2007 by \$136,095 (net assets) compared to \$139,420 as of March 31, 2006. This represents a decrease of \$3,325 for the fiscal year.

The majority of the decrease in net assets can be attributed to the lack of boat slip rentals due to shallow water conditions in the marina and adjoining river.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Sebewaing Harbor Commission's basic financial statements. The Harbor is a special-purpose government engaged only in business type activities.

The basic financial statements report information about the Harbor using full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include a statement of net assets, a statement of revenues, expenses, and changes in net assets and a statement of cash flows.

The statement of net assets presents information on all of the Harbor's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Harbor is improving or deteriorating.

The statement of revenues, expenses, and changes in net assets presents information showing how the Harbor's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The statement of cash flows presents changes in cash and cash equivalents from operational, financing, and investing activities. This statement presents cash receipt and disbursement information without consideration of the earnings event, when obligations arise, or depreciation of capital assets.

The basic financial statements can be found on pages 1-4 of this report.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 5-7 of this report. You should read the notes before making

SEBEWAING HARBOR COMMISSION MANAGEMENT'S DISCUSSION AND ANALYSIS

assumptions or drawing conclusions about the Harbor's financial condition.

The following table presents the condensed statement of net assets as of March 31, 2007 and 2006:

	March 31, <u>2007</u>	March 31, <u>2006</u>
Current assets	\$ 2,338	\$ 1,245
Capital assets	103,340	103,340
Other assets	<u>61,849</u>	<u>66,266</u>
Total assets	<u>167,526</u>	<u>170,851</u>
 Liabilities	 <u>31,431</u>	 <u>31,431</u>
 Net assets:		
Investment in capital assets	103,340	103,340
Unrestricted	<u>32,756</u>	<u>36,080</u>
Total net assets	<u>\$136,095</u>	<u>\$139,420</u>

The assets of the Sebewaing Harbor Commission exceeded its liabilities as of March 31, 2007 by \$136,095. This represents a decrease of \$3,325 or 2% for the fiscal year.

As of March 31, 2007, the largest portion of the Harbor's net assets reflects its investment in capital assets (\$103,340) (land on which the marina is located) less any related debt used to acquire those assets that is still outstanding. These assets are not available for future spending. At March 31, 2007, there was no debt related to any of the capital assets.

On October 21, 2003, the Harbor Commission purchased the right to operate the marina from the private operator through the assignment of the operating lease with the Michigan Department of Natural Resources. The purchase of the assignment of the operating lease was for \$75,100. As a result, the fiscal year 2004-2005 was the first year that the Sebewaing Harbor Commission operated the marina.

The following table shows condensed revenue and expense data for the years ended March 31, 2007 and 2006:

	March 31, <u>2007</u>	March 31, <u>2006</u>
Operating revenue	\$ 22,639	\$ 24,016
Operating expenses	<u>39,963</u>	<u>53,830</u>
Operating loss	(17,325)	(29,814)
Capital contributions	<u>14,000</u>	<u>12,000</u>
Change in net assets	(3,325)	(17,814)
Net assets, beginning of year	<u>139,420</u>	<u>157,234</u>
Net assets, end of year	<u>\$136,095</u>	<u>\$139,420</u>

The Harbor Commission generates the majority of its revenue from fees from the boat launch and the rental of boat slips in the marina. For the year ended March 31, 2007, the revenue from these fees amounted to \$18,056 compared to \$18,717 for the year ended March 31,

SEBEWAING HARBOR COMMISSION MANAGEMENT'S DISCUSSION AND ANALYSIS

2006. The Harbor Commission also generates revenue from the sale of marine gasoline and merchandise. The sales of these items amounted to \$3,211 for the fiscal year ended March 31, 2007 compared to \$4,079 for fiscal year 2006.

The Harbor's net asset decrease of \$(3,325) is due primarily to the loss from operations during the fiscal year. The decrease for the fiscal year 2006 was \$(17,814).

CAPITAL AND DEBT ADMINISTRATION

Capital assets. The Sebewaing Harbor Commission's capital assets as of March 31, 2007 were \$103,340. This is the cost of the land on which the marina is located. The construction costs of the marina were financed by the Michigan Department of Natural Resources.

Long-term debt. The only debt that the Harbor Commission has outstanding as of March 31, 2007 is an amount due to the Village of Sebewaing in the amount of \$31,210. This amount represents monies that the Village has advanced to the Harbor Commission for operations and the purchase of the land.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

During this past fiscal year, the Waterways Commission allowed the Sebewaing Harbor Commission to lower its season dock rates to \$300 in hopes of generating more revenue from the lack of boat slip rental. The daily launch fee and yearly launch pass were increased, also a park and fishing fee were added in hopes of generating more revenue. On September 18, 2007, an agreement was signed between the Sebewaing Harbor Commission and Bieri Excavating to dredge a shallow area near the mouth of the Sebewaing River. This will allow safer ingress and egress to and from Saginaw Bay and the Sebewaing Marina. This should help the Sebewaing Harbor Commission in future revenues.

REPORTS FOR INFORMATION

This financial report is designed to provide a general overview of the Sebewaing Harbor Commission's finances. Questions concerning this report or requests for additional information should be addressed to the Village of Sebewaing, 222 N Center Street, Sebewaing, Michigan 48759.

BASIC FINANCIAL STATEMENTS

SEBEWAING HARBOR COMMISSION

STATEMENT OF NET ASSETS MARCH 31, 2007

<u>ASSETS</u>	
CURRENT ASSETS:	
Cash	\$ 1,362
Due from Sebewaing Township	975
TOTAL CURRENT ASSETS	<u>2,338</u>
CAPITAL ASSETS:	
Land	<u>103,340</u>
OTHER ASSETS:	
Marina lease	75,100
Accumulated amortization	<u>(13,251)</u>
TOTAL OTHER ASSETS	<u>61,849</u>
TOTAL ASSETS	<u>167,526</u>
LIABILITIES:	
Due to Village of Sebewaing	31,210
Deferred Revenue	<u>221</u>
TOTAL LIABILITIES	<u>31,431</u>
NET ASSETS:	
Investment in capital assets	103,340
Unrestricted	<u>32,756</u>
TOTAL NET ASSETS	<u>\$ 136,095</u>

The accompanying notes are an integral
part of the financial statements.

SEBEWAING HARBOR COMMISSION

**STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN NET ASSETS
YEAR ENDED MARCH 31, 2007**

OPERATING REVENUE:

Seasonal launch permits	\$ 3,744
Transient boat launches	8,466
Boat slip rentals	5,846
Gas sales	1,008
Store sales	2,203
Donations	1,373

TOTAL OPERATING REVENUE	<u>22,639</u>
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OPERATING EXPENSES:

Wages	13,273
Payroll taxes	1,533
Supplies	2,041
Utilities	5,219
Insurance	7,253
Repairs and maintenance	2,319
Gasoline	1,462
Audit fee	1,300
Miscellaneous	1,145
Amortization	4,417

TOTAL OPERATING EXPENSES	<u>39,963</u>
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OPERATING (LOSS)	<u>(17,325)</u>
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CAPITAL CONTRIBUTIONS	14,000
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CHANGE IN NET ASSETS	<u>(3,325)</u>
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NET ASSETS - APRIL 1	139,420
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NET ASSETS - MARCH 31	<u>\$ 136,095</u>
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SEBEWAING HARBOR COMMISSION

STATEMENT OF CASH FLOWS YEAR ENDED MARCH 31, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 22,639
Cash payments to suppliers of goods and services	(20,740)
Cash payments to employees	(13,273)
Cash payments for fringe benefits	<u>(1,533)</u>
Net cash used by operating activities	<u>(12,908)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Proceeds from joint owners	14,000
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NET INCREASE IN CASH	<u>1,092</u>
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CASH - BEGINNING OF THE YEAR	270
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CASH - END OF THE YEAR	<u><u>\$ 1,362</u></u>
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**Reconciliation of operating (loss) to net cash
flows from operating activities:**

Operating (loss)	\$ (17,325)
Add amortization expense	4,417

Net cash used by operating activities	<u><u>\$ (12,908)</u></u>
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SEBEWAING HARBOR COMMISSION

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Sebewaing Harbor Commission have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies are described below.

Financial Reporting Model:

The Board has implemented the provisions of GASB Statement 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

Reporting Entity:

The financial statements of the Sebewaing Harbor Commission consists only of the funds of the marina. The Sebewaing Harbor Commission has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by or dependent on the Sebewaing Harbor Commission. Control or dependence is determined on the basis of accountability, budget adoption, taxing authority, funding and appointment of the respective governing board.

The Sebewaing Harbor Commission was formed as a joint venture between the Village of Sebewaing and Sebewaing Township for the purpose of planning, acquiring, constructing and operating a community harbor and marina to provide recreational services to the residents of the Village and Township along with the general public. Each governing body appointed three members to create a six member Board of Commissioners. Also, each governing body is equally responsible to provide financial funding to the Harbor Commission until the Commission is self-sufficient. Based on this financial and oversight responsibility being shared equally by the Village of Sebewaing and Sebewaing Township, the Sebewaing Harbor Commission is being treated as a joint venture of the two governing bodies and a separate governmental entity.

During the land acquisition phase, the Village of Sebewaing advanced funds to the Harbor Commission that were used for the purchase of land at the proposed site of the marina. The proceeds of the state grants and Sebewaing Township's share of the local matching funds were used to reimburse the Village for part of the funds advanced. As of March 31, 2007, the amount due to the Village of Sebewaing from the Harbor Commission amounted to \$31,210. As of March 31, 2007, the amount due from Sebewaing Township amounted to \$ 975.

SEBEWAING HARBOR COMMISSION

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Measurement Focus, Basis of Accounting and Basis of Presentation:

The Harbor Commission is presented as an enterprise fund. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or an economic asset is used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The Commission follows all pronouncements of the Governmental Accounting Standards Board, and has elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - CASH AND DEPOSITS:

Deposits are carried at cost. Michigan Compiled Laws, Section 129.91, as amended by Public Act 196 of 1997, authorizes the Commission Treasurer to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loans associations; bonds, securities, and direct obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the two highest classifications, which matures not more than 270 days after the date of purchase. Attorney General's Opinion Number 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Commission deposits are in accordance with statutory authority.

The carrying amount of cash and deposits with financial institutions of the Sebewaing Harbor Commission amounted to \$1,362 at March 31, 2007. The bank balance as of the same date was \$1,462. Deposits with financial institutions are insured by the FDIC.

SEBEWAING HARBOR COMMISSION

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2007

NOTE 3 – CHANGES IN CAPTIAL ASSETS:

Capital assets of the Harbor Commission consisted of the following:

	<u>April 1, 2006</u>	<u>Additions</u>	<u>March 31, 2007</u>
Land	\$103,340		\$103,340

NOTE 4 – OTHER ASSETS:

During the year ended March 31, 2004, the Sebewaing Harbor Commission purchased the marina operating lease from the private operator for \$75,100. The cost of the operating lease is being amortized over the remaining term of the lease which is 17 years. For the fiscal year ended March 31, 2007, the \$4,417 and accumulated amortization totaled \$13,251.

NOTE 5 – RISK MANAGEMENT:

During the year ended March 31, 2007, the Harbor Commission purchased commercial insurance to protect against losses related to its general liability.



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To Sebewaing Harbor Commission
Sebewaing, Michigan

In planning and performing our audit of the financial statements of the business-type activities of the Sebewaing Harbor Commission as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Sebewaing Harbor Commission's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

Due to the limited number of office personnel, all critical duties are performed by one person. Presently, this person prepares and makes deposits, prepares and signs checks, reconciles bank accounts, performs all payroll duties as well as maintains the general ledger. To the extent possible, we recommend that duties be segregated to serve as a check and balance on the employee's integrity and to maintain the best control system possible.

Our audit testing revealed that some invoices are being paid without being approved. All invoices need to be marked approved by the Marina manager, and all invoices should be approved for payment by the Harbor Commission before they are paid. Furthermore, all invoices need to be marked paid to reduce the risk of paying the invoice more than once. These procedures will enhance controls over cash disbursements.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

The personnel of the Sebewaing Harbor Commission have the capability to perform monthly internal accounting functions and reports as required by management. The personnel of the Sebewaing Harbor Commission do not have the internal expertise to prepare the annual financial statements and related footnotes in accordance with the method of accounting utilized in the external audit report. We believe this meets the definition of a material weakness under Statement of Auditing Standard #112.

This communication is intended solely for the information and use of management, the Sebewaing Harbor Commission, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Nietzke & Faupel, PC

Nietzke & Faupel, P.C.
Pigeon, Michigan

September 11, 2007